

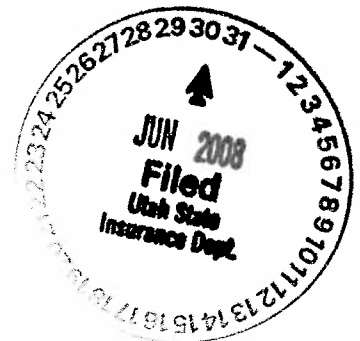
STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF FINANCIAL EXAMINATION  
of



**TOTAL DENTAL ADMINISTRATORS OF UTAH, INC.**

of  
Salt Lake City, Utah

as of  
December 31, 2006



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March 19, 2008

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable D. Kent Michie, Commissioner  
State of Utah Insurance Department  
3110 State Office Building  
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2006, has been made of the financial condition and business affairs of:

Total Dental Administrators of Utah, Inc.  
Of  
Salt Lake City, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

#### SCOPE OF EXAMINATION

##### Period Covered by Examination

The current examination covers the period from October 1, 2003, through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

##### Examination Procedure Employed

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2006. The examination was conducted to determine compliance with the applicable laws of the state of Utah, insurance rules promulgated by the Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs.)

This examination was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) in accordance with the Financial Condition Examiners Handbook.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was signed by and received from the Company's management.

An independent certified public accounting (CPA) firm was retained to audit the Company's financial records for the years ended 2003 through 2006. Audit reports generated by the firm were made available for the examination's review. Audit working papers were made available to the examination and utilized for examination purposes when deemed appropriate.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The previous examination was performed by the Utah Insurance Department as of September 30, 2003. Items of significance noted in the prior examination report summary were either addressed and resolved by the Company or commented on in this report.

## HISTORY

### General

The Company was incorporated as Safeguard Health Plans, Inc. on June 17, 1986. It was granted a certificate of authority to transact business as a limited health plan and commenced writing dental insurance on March 20, 1987.

Total Dental Administrators, Inc. acquired Safeguard Health Plans, Inc. on August 30, 2002. On October 28, 2002, the Articles of Incorporation were amended to change the corporation's name to Total Dental Administrators of Utah, Inc.

Effective October 2, 2002, the Company was granted authority to transact business in the State of Utah as a Limited Health Plan – Dental

### Capital Stock

Authorized common stock is 10,000 shares with par value of \$1 per share. As of December 31, 2006, 1,000 shares were issued and outstanding. All of the stock is held by Total Dental Administrators, Inc.

### Dividends to Stockholders

The Department approved the payment of extraordinary dividends of \$85,000 paid on April 30, 2004, \$65,000 paid on October 15, 2004, and \$100,000 on October 10, 2007, subsequent to the examination date of December 31, 2006.

### Management

The bylaws of the Company stated that the number of directors shall be four (4). Each director shall hold office until the next annual meeting of the shareholders and until his or her successor shall have been elected and qualified. Directors do not need to be shareholders.

The following persons served as directors of the Company as of December 31, 2006:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Jane Ann Morrison-Craig Sandy, Utah	President and CEO Total Dental Administrators, Inc.
Christopher Jehle Phoenix, Arizona	President and CEO Total Dental Administrators Health Plan, Inc.
Orrin T. Colby, Jr. Salt Lake City, Utah	Retired Insurance Executive
Nancy Lambert Sandy, Utah	Self Employed

As of December 31, 2006, the Board of Directors has appointed no committees.

The Company's bylaws provide that the officers of the Company shall be a President and Chief Executive Officer, Vice Presidents, a Secretary and a Treasurer. Other officers may be appointed at the discretion of the Board of Directors.

The officers of the Company as of December 31, 2006, were as follows:

<u>Name</u>	<u>Title</u>
Jane Ann Morrison-Craig	President and CEO
Christopher Jehle	Vice President - Treasurer
Orrin T. Colby, Jr.	Secretary

#### Conflict of Interest Procedure

During the period covered by the examination, directors or officers of the Company completed conflict of interest statements. No exceptions were noted.

#### Corporate Records

Corporate records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors and shareholders. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported the Company's transactions and events.

The prior examination report as of September 30, 2003, was distributed to the board of directors on January 27, 2005.

#### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

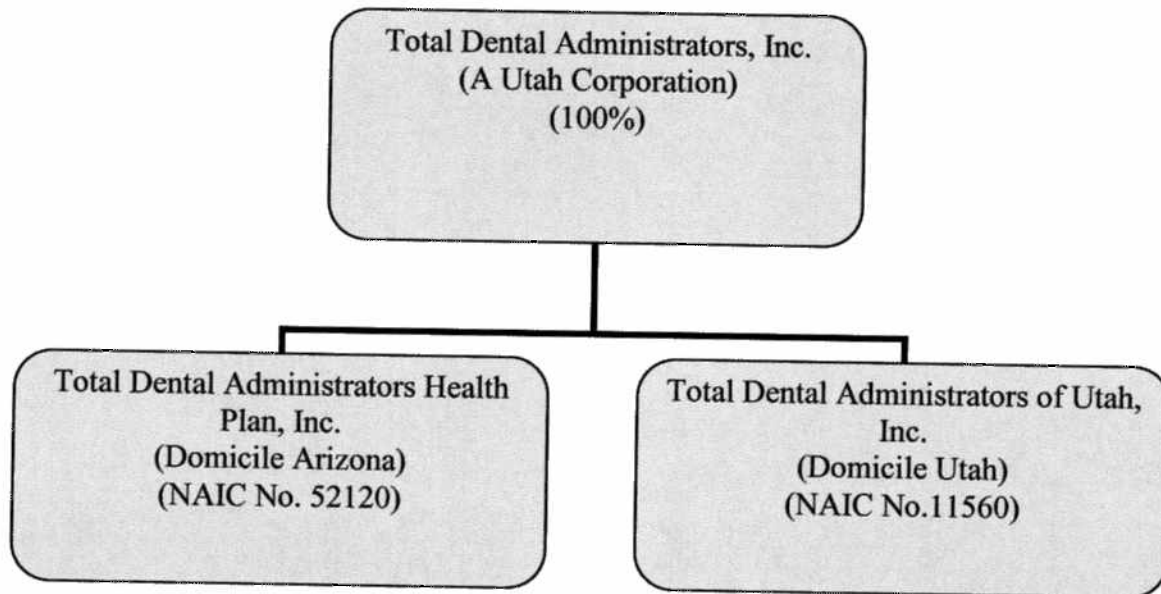
There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance that involved the Company during the examination period.

### Surplus Debentures

No surplus debentures were issued or retired during the examination period and none were outstanding as of December 31, 2006..

### AFFILIATED COMPANIES

The Company is wholly owned and controlled by Total Dental Administrators, Inc. a Utah Corporation. The Company is a member of the following holding company system:



Three individuals hold 74.79 % of the outstanding stock of the parent; Jane Ann Morrison Craig (28.66%), Christopher Jehle (25.29%), and Dr. Donald James Peterson (20.84%). The remaining 25.21% of the outstanding stock is owned by eight individuals, each holding less than 10%.

### Transactions with Affiliates

Pursuant to an administrative agreement, Total Dental Administrators, Inc.(TDA), provides to the Company such services as management expertise, accounting functions, payments to providers, computer systems, and corporate and employee benefit insurance policies. The Company reimburses the parent for direct costs for such operating expenses as postage, printing, supplies, employee benefits, salaries, and payroll taxes. The Company also pays the parent \$2,000 a month for underwriting fees and services.

Pursuant to a consolidated tax filing agreement, effective August 31, 2004, the Company files consolidated tax returns with TDA. The agreement specifies, among other things, the terms of apportionment, calculation of tax liability, and method of payment.

#### FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for a limited health plan of the Company's size and premium volume is not less than \$100,000. As of the examination date, the Company participated in fidelity bond coverage of \$500,000. The Company also had additional insurance protection against loss from other risks associated with doing business.

#### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no pension, stock ownership or insurance plans.

#### STATUTORY DEPOSITS

The Company's statutory deposit requirement was \$75,000 pursuant to U.C.A. § 31A-8-211(3)(a). The funds represented by a deposit of cash are held by the Utah State Treasurer as permitted by U.C.A. § 31A-2-206(2).

#### INSURANCE PRODUCTS AND RELATED PRACTICES

##### Policy Forms and Underwriting

The Company's form stock was compared with forms filed with the Utah Insurance Department. No exceptions were noted.

Dental plan providers are compensated for dental services with capitation payments. The capitation payment amount to a plan provider is based upon the number of subscribers selecting that provider for dental services.

Providers are paid additional supplemental payments from a capitated funded pool for services such as oral exams, cleanings, and x-rays. The Company does not retain any additional risk for the capitated funded pool beyond the accrued liability reported.

##### Territory and Plan of Operation

The Company is authorized to transact dental insurance as a limited health plan only in the State of Utah.



### Advertising and Sales Material

The Company did not utilize commercial advertising during the period under examination.

### Treatment of Policyholders

The Company had a grievance procedure for utilization by its members. Neither the Company nor the Department received any complaints during the period under examination.

## REINSURANCE

During the examination period the Company did not assume or cede reinsurance.

## ACCOUNTS AND RECORDS

The Company's accounting systems were maintained on a local area network. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An independent certified public accounting firm audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2003 through 2006 were made available for the examiner's use.

## FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2006

STATEMENT OF REVENUE AND EXPENSES for the Year Ended December 31, 2006

RECONCILIATION OF CAPITAL AND SURPLUS – October 1, 2003 through December 31, 2006

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

TOTAL DENTAL ADMINISTRATORS OF UTAH, INC.  
BALANCE SHEET  
as of December 31, 2006

ASSETS

	Net Admitted Assets	Notes
Cash, cash equivalents and short-term investments	\$ 420,976	
Investment income due and accrued	697	
Uncollected premiums and agents balances	31,079	1
Electronic data processing equipment and software	2,686	
Total assets	<u>\$ 455,438</u>	

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$ 100,082	
Unpaid claims adjustment expenses	3,004	
Premiums received in advance	83,235	2
General expenses due or accrued	22,493	4d
Current federal income tax payable	0	4a
Net deferred tax liability	12,190	4b
Amounts withheld or retained for account of others	10,461	3
Amounts due to parent, subsidiaries and affiliates	10,021	4c
Total liabilities	<u>241,486</u>	
Common capital stock	1,000	
Gross paid in and contributed surplus	69,491	
Unassigned funds (surplus)	143,461	6
Total capital and surplus	<u>213,952</u>	
Total liabilities, capital and surplus	<u>\$ 455,438</u>	

TOTAL DENTAL ADMINISTRATORS OF UTAH, INC  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2006

	<u>Amount</u>	
	<u>Total</u>	<u>Notes</u>
Net premium income	\$ 2,068,228	1, 2
Total revenues	<u>2,068,228</u>	
Medical and Hospital:		
Hospital/medical benefits		
Other profesional service	1,286,316	3
Other medical and hospital	<u>2,998</u>	
Subtotal	<u>1,289,314</u>	
Less:		
Net reinsurance recoveries		
Total medical and hospital	<u>1,289,314</u>	
Claims adjustment expenses	460	
General administrative expenses	<u>755,729</u>	4f
Total underwriting deductions	<u>2,045,503</u>	
Total underwriting gain or (loss)	<u>22,725</u>	
Net investment income earned	<u>8,305</u>	
Net investment gains or (losses)	<u>8,305</u>	
Miscellaneous income		
Net income or (loss) before federal income taxes	31,030	5
Federal and foreign income taxes incurred	<u>18,839</u>	4f
Net income (loss)	<u>\$ 12,191</u>	5

TOTAL DENTAL ADMINISTRATORS OF UTAH, INC  
RECONCILIATION OF CAPITAL AND SURPLUS  
October 1, 2003 through December 31, 2006

	<u>2003</u>	<u>2,004</u>	<u>2,005</u>	<u>Per Exam 2006</u>	<u>Notes</u>
Capital and surplus prior reporting year	\$ 264,296	\$ 249,600	\$ 149,515	\$ 207,123	
Net income or (loss)	20,951	28,377	46,988	12,191	
Change in nonadmitted assets	(35,645)	38,070	10,620		
Dividend to shareholder		(150,000)			
Aggregate write-ins for gains or (losses) in surplus:	(2)	(16,532)		(5,362)	3, 4f
Prior period adjustments					
Net change in capital and surplus	<u>(14,696)</u>	<u>(100,085)</u>	<u>57,608</u>	<u>6,829</u>	
Capital and surplus end of reporting	<u>\$ 249,600</u>	<u>\$ 149,515</u>	<u>\$ 207,123</u>	<u>\$ 213,952</u>	

## NOTES TO FINANCIAL STATEMENTS

- (1) Uncollected premiums in the course of collection \$ 31,079

The Company reported \$64,278 for this asset. As a result of billing errors the reported amount was overstated. The examination reduced the asset by \$33,199, offset by a reduction in Net Premium Income.

- (2) Premiums received in advance \$ 83,235

The Company reported \$57,799 for this liability. Concurrent with examination adjustment to the asset for uncollected premiums in the course of collection this liability was increased by \$ 25,436, offset by a reduction in Net Premium Income.

- (3) Amounts withheld or retained for the account of others \$ 10,461

The Company reported \$0 for this liability. During the period under examination unclaimed checks of \$10,461 were reversed and treated as income. The examination has recorded this amount as a liability for property presumed abandoned as required by U.C.A. § 31A-4-110. The increase in liability is offset by an increase in Hospital/Medical Expenses of \$1,525 and a reduction of surplus of \$8,936.

- (4) Federal and state income tax

Adjustments made to record the examination findings, discussed in Notes 1 – 3 above, required reduction of the provision for federal and state income taxes for the year ended December 31, 2006. Results of the reduced provision required examination adjustment and restatement to asset, liability, income and expense account balances reported by the Company, as follows:

(a) The Company reported current federal and foreign income tax liability of \$6,779. Based on the examination recalculation of the estimated provision for income tax, taking into consideration the examination adjustments for the year ended December 31, 2006, this liability was reduced and restated to \$ 0.

(b) The Company reported net deferred tax liability of \$21,487. Concurrent with the examination adjustments to the liability for current federal and foreign income tax payable, this liability was reduced by \$9,297 and restated to \$12,190.

- (c) The Organization reported \$11,862 as a liability for amounts due to parent and affiliates. Concurrent with the examination adjustment to the liability for federal income tax payable this liability was reduced by \$1,841 and restated to \$10,021.
- (d) The Company reported \$21,651 as a liability for general expenses due or accrued. Concurrent with the examination adjustment to the liability for federal income tax payable this liability was increased by \$842 and restated to \$22,493.
- (f) The Company reported \$753,763 general expenses and \$34,306 as provision for federal income tax. Concurrent with the examination adjustment to the liability for federal income tax payable; general expenses were increased by \$1,966 and restated to \$755,729; provision for federal income tax was decreased by \$15,467 and restated to \$18,839 with an increase of unassigned funds (surplus) of \$3,574 as a prior period adjustment.
- (5) The Company reported \$93,156 as income, after capital gains tax and before all other federal income taxes and \$58,850 as net income. As a result of the examination adjustments, income after capital gains tax and before all other federal income taxes was reduced by \$62,126 and restated to \$31,030 and net income was reduced by \$46,659 and restated to \$12,191.
- (6) The Company reported \$195,482 as unassigned funds (surplus). As a result of examination adjustments unassigned funds (surplus) was decreased by \$52,021 and restated to \$143,461.

## CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$ 52,021 less than reported in the annual statement as of December 31, 2006. The change includes a \$33,199 decrease of assets and \$18,822 increase in liabilities. The following schedule identifies the examination changes to specific balance sheet lines:

<u>Description</u>	<u>Statement Dr (Cr)</u>	<u>Per Examination</u>	<u>Surplus Inc. (Dec.)</u>	<u>Notes</u>
Uncollected premiums	\$64,278	\$31,079	(\$33,199)	1
Premiums received in advance	(57,799)	(83,235)	(25,436)	2
General expense payable	(21,651)	(22,493)	(842)	4d
Amounts withheld or retained for account of others	0	(10,461)	(10,461)	3
Current federal income tax payable	(6,779)	0	6,779	4a
Net deferred tax liability	(21,487)	(12,190)	9,297	4b
Amounts due parent, subsidiaries, and affiliates	(11,862)	(10,021)	1,841	4c
Total examination changes			<u>(52,021)</u>	
Unassigned funds (Surplus):				
Report by Company			195,482	
Per Examination			<u>\$143,461</u>	

The Company's minimum capital requirement was \$60,000 as defined in U.C.A. § 31A-8-209(2)(a). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital of \$213,952, which exceeded the company action level risk-based capital (RBC) requirement of \$85,236 by \$128,716. The examination reviewed the effect of examination adjustments on RBC and deemed that they were neither material nor significant. Consequently, the examination did not adjust the RBC requirement.

## SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:


- During 2003, the Company paid a \$150,000 dividend to its shareholder. A dividend of \$ 100,000, to be paid during the month of October 2007, was approved by the Utah Insurance Department on September 24, 2007. (HISTORY – Dividends to Stockholders)
- During the period under examination unclaimed checks of \$10,461 were reversed and treated as income. This amount has been recorded as a liability for property presumed abandoned as required by U.C.A. § 31A-4-110. (NOTES TO FINANCIAL STATEMENTS – Note (3))
- The Company's minimum capital requirement was \$60,000 as defined in U.C.A. § 31A-8-209(2)(a). As defined by U.C.A. § 31A-17 Part 6, the Company had total adjusted capital of \$213,952, which exceeded the company action level risk-based capital (RBC) requirement of \$85,236.



## CONCLUSION

Don Catmull, CFE and Sandra Halladay, Market Conduct Examiner, participated in the examination. Colette Hogan, CFE, CPM, Assistant Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Larry H. Whitlock, CPA, CFE  
Utah Insurance Department